

## PROJECT OVERSIGHT REPORT

**Insurance System Replacement Project (ISRP)**  
**Health Care Authority**

**Report as of Date:**  
**February 2003**

**Project Director:** Christine Spaulding  
**MOSTD Staff:** Tom Parma

**Executive Sponsor:** Tom Neitzel

**Description:** The Health Care Authority (HCA) received ISB approval and legislative funding to replace its two separate systems that support the Public Employee Benefit Board (PEBB) and Basic Health (BH) insurance lines of business with a single vendor-supplied system. The PEBB system was developed and is operated and maintained by the Department of Personnel (DOP); the BH system was developed and is operated and maintained by HCA staff. The goal of this project is to provide a single health insurance system to support both PEBB and Basic Health insurance lines of business, provide technology to improve the use of information, and reduce the overall cost of processing.

The new insurance system is expected to improve customer service by providing more accurate and timely resolution to customer inquiries, and by improving business processes and workflows. The new system will give customers and providers the ability to perform several functions over the Internet such as: applying for insurance; updating personal information; paying premiums; and checking eligibility. It will also position the agency to comply with the federal Health Insurance Portability and Accountability Act (HIPAA) of 1996.

In addition to the intangible benefits of improved customer service, this initiative is anticipated to provide over \$1.5 million in annual benefits primarily from reduction in operational costs. The project has a five-year payback period.

The contract was awarded to Healthaxis Inc. for \$3.036 million and work began June 3, 2002. KPMG has been engaged as the external Quality Assurance (QA) vendor.

The major project phases are:

- Phase I – Requirements definition, system architecture selection.
- Phase II – Detailed application design requirements, data migration, development, test.
- Phase III – Acceptance testing, training, implementation.

Although not technically a phase of the development portion of the project, a parallel activity is the decommissioning of the insurance functions of the PEBB system at DOP.

**Technology:** The new system will make use of Sun servers running UNIX and Oracle database products.

**Life Cycle Stage:** Phase II, in progress – Detailed application design requirements, data migration, development, test

**Budget:** The project is on budget; it is fixed-price, deliverables-based. The budget is \$4.99 million for the entire project, including decommissioning. Of this amount, \$4.4015 million is for purchasing, tailoring, implementing, and training for the new system; \$975,000 is for the system decommissioning at DOP. As of October 31, 2002 actual expenses were \$1,068,386. The system hardware and software have been ordered and received but not yet paid for.

**Schedule:**

<i><b>Deliverable</b></i>	<i><b>Payment Schedule</b></i>	<i><b>Delivery Schedule</b></i>	<i><b>Status</b></i>
<b>Phase I:</b>			
Contract signed		May '02	Completed - on time
Begin contractor work on analysis & planning		June '02	Completed - on time
Complete business & technical analyses (User Requirements Documents)	275,000	Sept '02	Completed – on time
<b>Phase II</b>			
Begin design, development, system testing		July '02	Design and development started on schedule – system testing has begun
Complete process mapping, approve software requirements specifications and high level design		Dec '02	Process mapping and software requirements specs began late
Complete design, development, system testing (Major Deliverables in Mar, Apr, May, minor deliverable by Sep)	\$1,604,849	May '03	No change
<b>Phase III</b>			
Begin User Acceptance Test		Mar '03	No change
Complete User Acceptance Test		May '03	Scheduled for June '03
Begin User Training		Mar '03	Scheduled for April '03
System implemented and in production	\$804,690	June 30, 2003	Some requirements will be phased in after June 30
<b>Subtotal:</b>	<b>\$2,684,539</b>		
Withhold	\$441,091	December 30, 2003 (Acceptance + 120 days)	Scheduled for 120 days past full production status
<b>TOTAL:</b>	<b>\$3,125,630</b>		

**Status:** This project officially began June 3, 2002. The project plan shows that an activity on the critical path has begun one week late with no project contingency remaining. HCA and Healthaxis are working to mitigate this. HCA and Healthaxis completed requirements definitions and software specifications, and are reviewing the user interface prototype and application design. The original project plan has been modified from a single system deliverable to four staggered deliverables. This change was made for two reasons: to allow concurrent development tracks, and to allow for later delivery of system functions that are not required on June 30. The data conversion files are defined, and DOP's HRISD has begun conversion testing. Detailed planning for testing and implementation is being finalized.

**Issues:**

- Schedule: HCA's deadline for implementation is June 30, 2003. HCA and Healthaxis must complete testing and begin training by April. To partially mitigate this risk, HCA has identified processes that do not need to be operational July 1, 2003 such as quarterly reporting and end of year close out. One impact of missing the deadline would be continuing to run the PEBB system at DOP at a cost of approximately \$200,000/month for which HCA is not funded in the 03-05 Biennium.
- Impact on DOP's HR project: HCA and DOP have finalized the plan to decommission the PEBB system. If HCA must extend its use of the PEBB system at DOP past June 30, 2003, DOP personnel may not be available to transition to the Civil Service Reform / Collective Bargaining (CSR/CB) project. The longer the extension, the more serious the problem for DOP.
- Executive sponsorship: the HCA Administrator, Ida Zodrow, has announced she is leaving in February to take a position with the state of California. In addition, the assistant administrator for PEBB and the assistant administrator for BH are relatively new in their positions, although not new to the agency.
- It was recommended that HCA determine what remedies exist under the terms of the contract with Healthaxis in the event that Healthaxis is found to be in non-compliance. HCA has notified Healthaxis and reiterated that the July 1, 2003 "go-live" date is non-negotiable.

**Recommendation:** ISB oversight staff recommends that this project be elevated to a Level 3 project, subject to full ISB oversight until all requirements are fully implemented and the system is in full production. HCA shall also provide status reports at every Board meeting until the project is completed. Additionally, Healthaxis executives should coordinate their monthly on-site visits to coincide with scheduled ISB meetings to: attend all ISB meetings with HCA, report their company's activities, and answer any questions the ISB members may have.